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February 12, 2009

Mary Rupp, Secretary of the Board
NCUA

Dear Ms. Rupp:

The recent announcement by NCUA to bail out the Corporate Credit Union Network comes at a very difficult time for our credit union. Over the past several months we have felt the same economic impacts experienced by several financial institutions throughout the nation including the Corporate Credit Unions.

Specifically we have seen our membership get hit hard by rising unemployment, falling values in their homes relative to their mortgages and local businesses losing revenues (many of whom have commercial loans at our institution). Our original sponsor just permanently terminated seventy percent of their work force – the impact to the credit union is still being determined, needless to say it won't be positive.

Delinquency has quadrupled over the past twelve months, net charge offs have increased to the point that we had to allocate over $1 million to our provision for loan losses. Our investment portfolio has been impacted by declines in market value especially in the fourth quarter of 2008.

We have also dealt with a shrinking margin during 2008 – primarily due to a 100 point reduction in asset yields as a result of the Federal Open Market Committee's decisions to reduce the federal funds rates and the corresponding movements in Prime. We have approximately 30 percent of our loan portfolio tied to prime so we have felt these movements immediately. At the same time we have made every effort to reduce our cost of funds and have had some success, but not at the same levels.

All of these issues put our bottom-line in a negative earnings position for the fiscal year ended 2008. In response the management team has enacted several cost savings moves to overcome the issues we are facing. All the while I have maintained close contact with our NCUA examiner. Despite a recognition for a continuation of heavy delinquency and resulting charge offs, we have an established budget for 2009 that calls for a positive bottom-line and a narrow ROA. Our plan calls for a reduction in operational expenses of nearly $200,000. Staffing has been reduced, salaries have been frozen and we may be closing a branch in the near future.

So I'm comfortable in stating we are doing everything we can with sacrifice being felt by our entire staff through salary freezes and increased accountability in an effort to survive this difficult environment. We are positioning ourselves to endure and still provide quality service to our membership as they deal with many financial challenges.

Through these stressful times, I have had the comfort of knowing we have a strong capital position to help us survive. However, we have never been over capitalized – our range has always been in between nine and ten percent. 2008 left our capital to asset ratio at 9.27 percent, healthy but not outrageous. We have always tried to adhere to traditional credit union philosophies and return as much as possible to our membership.

The news that we received this last week was devastating. The financial stress of our current economy, the negative earnings of 2008 and the changes we have made put our projected ROA for 2009 at 16 basis points. Now we are expected to pay out 62 basis points to save our Corporate Credit Unions?

I don't claim to have the ultimate answer to this situation and can appreciate the magnitude of the decision. At the same time, based upon what I know at this time, I can't help but feel that the board made their decision partially based on perception by the general public. How would it play out in the press if a large corporate credit union were to fail? Based upon sheer size it would probably be a big story. Versus if my $150 million credit union in rural Oregon were to fail – this would perhaps get some local press, but it would be forgotten in a few days. We would probably be merged into a larger credit union and thus the statistics would show one less credit union, but the total assets of the industry showing no impact by the loss of said institution.

So what is the harm? Members still have access to service right? Credit unions as an industry still survive so NCUA still has a purpose and examiners are still needed. Well there are a number of credit unions put at risk in the scenario proposed with this bail out.

Again our capital is on fairly solid footing, but this decision weakens our ability to survive what is likely to be a difficult environment in 2009. This decision ensures we will see an operating loss regardless of what operational changes we make. The price tag is too heavy to overcome. So what is the result? Well my first guess is that NCUA will be coming down on us with a heavy hand. We will have examiners criticizing our management, questioning our decisions and causing doubt in the minds of board of directors as to the capability of management. Now perhaps I am over reacting in that last sentence.

My questions are these:

1. What alternative courses of action were considered prior to this decision?
2. What kind of relief are natural person credit unions going to be afforded in light of this decision and its impact to our financial positions?
3. What accountability is being placed on the Corporate Credit Unions management teams especially those whose published losses have contributed to this decision?
4. If in the future the situation changes and the Corporate Network can repay the funds needed today, are we going to see a refund back into our institution?
5. Who was consulted in this decision – were our trade associations allowed input, were some of industry's experts consulted?

Additionally, here are some comments that need to be addressed:

1. Those Corporates receiving funds need to provide a substantive plan on how they are going to operate within the funds provided by natural person credit unions.
2. This plan should include steps they will take if these funds do not provide the necessary stop gap within our economic conditions.
3. A proposal to suspend the accounting rules requiring expensing the impairment in the insurance fund. We would rather fund directly through equity.
4. Communication on who will be responsible for the public relations around this type of action.

There isn't much else to say – others have probably had more intelligent and/or strongly worded positions on this announcement. In the end it is about survival.

Sincerest regards,

Jeffrey L. Schwarz

Jeffrey L. Schwarz
President/CEO
St. Helens Community Federal Credit Union